

Message Text

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ACTION SS-30

INFO OCT-01 ISO-00 SSO-00 /031 W
----- 079616

P R 221240Z DEC 73

FM AMEMBASSY PHNOM PENH

TO SECSTATE WASHDC PRIORITY 4278

INFO AMEMBASSY BANGKOK

AMEMBASSY SAIGON

CINCPAC

COMUSSAG

S E C R E T SECTION 1 OF 2 PHNOM PENH 14293

EXDIS

SECSTATE PASS NSC, SECDEF, CJCS

FOR STATE/AID

E.O. 11652: GDS

TAGS: EGEN, EAID, CB

SUBJ: HYPERINFLATION IN CAMBODIA

REFS: (A) STATE 249438 (B) PHNOM PENH 13325

1. PRIME MINISTER-DESIGNATE LONG BORET IS BACK, AND WE WILL PUT TO HIM PERHAPS AS EARLY AS THIS WEEKEND THE ECONOMIC PACKAGE OUTLINED IN REF B, WITHOUT COMMITMENT AS TO U.S. RESOURCES. WE WILL, HOWEVER, OMIT THE "FLOOD THE MARKET" RICE PROPOSAL, SUBSTITUTING FOR IT A STATEMENT THAT THE GOVERNMENT WILL RELEASE TO

THE MARKET SUFFICIENT QUANTITIES OF RICE TO PREVENT THE PRICE FROM RISING TO UNREASONABLE LEVELS AS IT HAS IN THE PAST.

2. PROMPT FUNDING ACTION AT SUFFICIENT LEVELS REMAINS ESSENTIAL TO SUCCESS OF THIS PROGRAM. AS YOU REQUEST WE HAVE ONCE AGAIN REVIEWED OUR FUNDING PROPOSALS WITH A VIEW TO IDENTIFYING ANY POSSIBLE CUTS.

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3. OUR PROPOSALS ARE ALREADY BASED ON A DECLINING IMPORT LEVEL, IN REAL TERMS. PARA 4, REF A SUGGESTS FURTHER REDUCTION. IT WOULD BE POSSIBLE TO FURTHER LIMIT IMPORTS IN THESE CATEGORIES, BUT IT COULD NOT BE DONE ON THE BASIS OF REMOVING CONSTRAINTS

ON IMPORT DEMAND BUT WOULD REQUIRE INSTITUTION OF ADDITIONAL

ADMINISTRATIVE CONTROLS AND LICENSING. THERE IS A POINT BEYOND WHICH THE EXCHANGE RATE WILL NOT LIMIT IMPORT DEMAND BECAUSE TOO MANY ITEMS ARE NOT SENSITIVE TO PRICE.

4. WE ALREADY HAVE BEEN OPERATING THE PROGRAM ON THE BASIS OF LIMITING CIP IMPORTS. NOT ONLY ARE THERE NO LUXURIES UNDER THE CIP BUT WE HAVE REFUSED TO PERMIT SUCH COMMODITIES AS ALUMINUM SULFATE FOR WATER PURIFICATION TO BE IMPORTED (HENCE MUDDY WATER IN PHNOM PENH). OUR THINKING ALSO PRESUMED A NEGATIVE LIST FOR THE ESF. IN FACT THE PROBABLE SHORTFALL IN ESF CONTRIBUTIONS WILL REQUIRE NOT ONLY A NEGATIVE LIST BUT SOME TYPE OF LICENSING UNLESS THERE IS A SUFFICIENCY OF CIP FUNDS.

5. IN MAKING OUR PROJECTION ON CIP USE, WE HAVE ALREADY PLANNED ON DRAWING DOWN HEAVILY ON PRIOR PIPELINE. AS INDICATED IN PARA 10 G OF REF B, OUR REQUEST HAS ONLY SUFFICIENT CARRYING TO FY 75 TO PROVIDE FOR CONTINUING OPENING OF LETTERS OF COMMITMENT IN THE INITIAL PERIOD OF FY 75. WE ARE ABOUT TO PROPOSE AN EXPEDITED LETTER OF COMMITMENT PROCEDURE FOR CAMBODIA WHICH MIGHT ENABLE US TO CLOSE OUT FY 74 WITH ABSOLUTELY NO PIPELINE WHATSOEVER BUT WHICH

WOULD REQUIRE OBLIGATION OF NEW FUNDS ON JULY 1, 1974 OF FY 75 FUNDS FOR IMMEDIATE OPENING OF NEW LETTERS OF COMMITMENT. THIS SHIFT MIGHT BRING US A ONE-TIME SAVING OF \$2 MILLION. A FURTHER 10 PERCENT REDUCTION IN GENERAL LICENSING WOULD YIELD ABOUT \$2 MILLION. OUR POL PROJECTIONS PROVIDED A 60-DAY PIPELINE INTO FY 75. ELIMINATION ON THAT WOULD SAVE \$2 MILLION BUT WOULD REQUIRE IMMEDIATE FUNDING AT THE ADVENT OF FY 75. POL PROJECTIONS IN REF B WERE BASED ON GASOLINE CONSUMPTION OF 50 PERCENT OF NORMAL. REDUCING THAT TO 40 PERCENT AND FOR EXAMPLE, CUTTING FUEL FOR POWER PLANTS FROM THE ORIGINAL 25 PERCENT REDUCTION TO ABOUT A ONE THIRD REDUCTION AS WELL AS OTHER EXTREME MEASURES IN THE SAME VEIN COULD REDUCE PHNOM PENH CIVIL POL CONSUMPTION TO NEAR SCOOT PLAN LEVELS (WHICH PRESUPPOSED SUPPLYING PHNOM PENH POL BY AIR) AND COULD SAVE PERHAPS ANOTHER \$2 MILLION.

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SOME PL 480 FREIGHT COULD BE SHIFTED TO ESP BUT IN THE FIRST HALF OF 1974 OTHER COUNTRIES DEPOSITS WILL BE LAGGING AND ESP WILL NO DOUBT FALL SHORT OF \$35 MILLION. THEREFORE, THE MOST IT IS PRACTICABLE TO ASSUME ESF COULD ABSORB IN PL 480 FREIGHT IN FY 74 IS \$3 MILLION. SINCE AN ESF OF EVEN \$30 MILLION WILL REQUIRE THE GKR TO

PUT WHATEVER SPARE FOREIGN EXCHANGE IT HAS INTO THE ESF, WE SEE NO REAL PROSPECT OF THEIR FOREIGN EXCHANGE PICKING UP PL 480 FREIGHT COSTS ABOVE AND BEYOND THOSE PAID FOR BY ESF.

6. WITH REGARD TO REFUGEES, VOLAGS HAVE USED \$3.3 MILLION TO DATE, AND WE ESTIMATE THEIR DOLLAR REQUIREMENTS FOR THE BALANCE OF FY 74 AT \$1.5 MILLION, WITH LOCAL COSTS BEING PROVIDED FROM

COUNTERPART AFTER JANUARY. IN ADDITION, \$2.2 MILLION REPRESENTS A MINIMAL FOREIGN EXCHANGE COST FOR THE NEW REFUGEE RESETTLEMENT ORGANIZATION. TOGETHER THESE TOTAL \$7 MILLION, ONE MILLION LESS THAN THE \$8 MILLION REQUESTED. THIS SAVING MAY NOT BE AS MUCH AS WASHINGTON OFFICES HAD HOPED FOR, BUT WE HAD ALREADY BEEN PLANNING TO SHIFT TO COUNTERPART FUNDING OF LOCAL COSTS. THE SAVING REPRESENTS SOME FX COSTS WHICH COULD BE POSTPONED TO THE ADVENT OF FY75.

NOTE BY OC/T: PHNOM PENH 14293 NOT PASSED SECDEF,NSC,CJCS.

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TO SECSTATE WASHDC PRIORITY 4279

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S E C R E T SECTION 2 OF 2 PHNOM PENH 14293

EXDIS

7. THE TOTAL OF ALL REDUCTIONS AMOUNTS TO \$12 MILLION. HOWEVER, WE VIEW SOME, SUCH AS FURTHER REDUCTION IN COMMERCIAL IMPORTS AS IN EXTREMIS TYPE MEASURES. WE WOULD RANK THE PRIORITY WITH THE MOST BEARABLE REDUCTIONS FIRST AS FOLLOWS:

PL 480 FREIGHT TO ESF	\$3.0 MILLION
NO CIP PIPELINE INTO FY 75	2.0 MILLION
NO POL PIPELINE INTO FY 75	2.0 MILLION
REFUGEE PROGRAM	1.0 MILLION
FURTHER POL USE CUTS	2.0 MILLION
10 PERCENT FURHTER REDUCTION	
CIP LICENSING	2.0 MILLION

8. WE ARE SERIOUSLY CONCERNED BY YOUR COMMENTS ON RICE. NEW CALCULATIONS SUGGEST THAT AS MUCH AS 30,000 TONS MAY BE RSFQUIRED ABOVE THE 265,000 TONS NOW IN EXISTING PL 480 AGREEMENTS. THE ORIGINAL REQUIREMENT FOR FY 1974 SHIPMENTS OF 265,000 TONS WAS BASED ON REQUIREMENTS THAT HAVE CHANGED. THESE WERE (A) THE ASSUMPTION THAT THE EXPORTABLE PORTION OF THE BATTAMBANG/PURSAT RICE CROP WOULD BE ON THE ORDER OF 60,000 MT; THE MORE LIKELY TOTAL NOW APPEARS TO BE 50,000 TONS; AND (B) THE ASSUMPTION THAT CARRY-OUT STOCKS AT THE END OF OCTOBER 1974 WOULD BE TWO MONTHS' SUPPLY

RATHER THAN THE THREE MONTHS' STOCK NOW CONSIDERED AS ESSENTIAL.
 ADDING 20,000 MT IN ORDER TO STABLIZE PRICES WOULD MEAN ADDITIONAL
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REQUIREMENT OF 50,000 TONS, HOWEVER, BY REDUCING OUR TOTAL YEARLY
 CONSUMPTION PROJECTIONS WE HAVE ARRIVED AT THE REQUIREMENT FOR
 THE ADDITIONAL 30,000 TONS.

9. THE FOLLOWING IS OUR NEW PROJECTION OF RICE SUPPLY AND DEMAND
 FOR CY 74. (NOTE THAT ARRIVALS THROUGH JULY IN CAMBODIA ARE
 PROVIDED FROM FY 74 SHIPMENTS FROM THE U.S. INCLUDING AN
 ADDITIONAL 30,000 MT OF RICE. ALSO REPAYMENTS OF 70,000 ME TO
 VIETNAM AND KOREA ARE INCLUDED.)

CAMBODIA RICE SUPPLY AND DEMAND

000 MT

JAN FEB MAR APR MAY JUNE

BEGIN STOCK	46	64	64	69	94	99
DOMESTIC PRODUCTION	-	-	-	20	-	-
IMPORTS	48	30	25	25	25	20
TOTAL AVAILABLE	94	94	89	114	119	119
LESS DISTRIBUTION	30	30	20	20	20	20
END STOCK	64	64	69	94	99	99

JUL AUG SEP OCT NOV DEC

BEGIN STOCK	99	119	99	79	69	69
DOMESTIC PRODUCTION	20	-	-	10	-	-
IMPORTS	20	-	-	11	20	
TOTAL AVAILABLE	139	119	99	89	80	80
LESS DISTRIBUTION	20	20	20	20	20	20
END STOCK	119	99	79	69	60	60

10. RECOGNIZE EXTRAORDINARY EFFORT YOU HAVE ALREADY MADE TO
 SUPPLY SU WITH RICE. WE BELIEVE THAT FURTHER EFFORT WILL BE
 REQUIRED TO MAKE SURE THAT THE HIGH COST OF LIVING WHICH
 EXPENSIVE AND SCARCE RICE SYMBOLIZES TO THE POPULATION, DOES NOT
 BECOME AN UNCONTROLLABLE POLITICAL ISSUE HERE.
 ENDERS

NOTE BY OC/T: NOT PASSED SECDEF, NSC,CJCS.

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